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SUBJECT: COAL INDIA: GROWTH THROUGH LEADERSHIP, TECHNOLOGY,
OUTSOURCING, AND ACQUISITION

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¶1. (SBU) Summary: Led by a dynamic chairman, Coal India Limited (CIL), the world's largest coal producing company, is focused on growing its operations through more efficient mining operations, greater utilization of outsourcing and initiating overseas acquisitions. CIL has recognized the importance of harmonious community relations and adopted a sound land acquisition and village rehabilitation policy to successfully navigate the perils of land acquisition in India. CIL offers promising business opportunities for American firms in the areas of mining equipment sales, coal washing facilities, contracting of mining operations and as potential acquisition targets. Coal fired thermal accounts for approximately 53 percent of India's total power generation capacity, and given the growing economy and increasing demand for energy, only a portion of which may be met by the nascent nuclear industry, will remain the major source of India's energy production in the country. End Summary.

¶2. (U) On February 20 ConGen, EconOFF and EconFSN accompanied the Chairman of CIL, Partha S. Bhattacharyya, and his senior management, on an overnight train journey to visit the open cast mine of Rajmahal, and the adjacent re-settled village of Ishwar Marandi Nagar, located in Godda district in the eastern Indian state of Jharkhand. This cable summarizes information provided by Bhattacharyya and other senior managers during a series of discussions that took place over the course of the visit.

Domestic Growth Plans

¶3. (SBU) Rajmahal exemplifies CIL's domestic expansion strategy through concentration on profitable mining operations, greater outsourcing, mine expansion and simultaneous investment in new equipment. CIL currently employs 415,000 people and owns 473 mines spread across eight Indian states. As a Public Sector Undertaking (PSU), a state owned enterprise, CIL has limited flexibility in remanding workers. CIL has attempted to strategically concentrate and relocate workers to more efficient mines away from loss making underground mines so that it can eventually close them. It has also encouraged greater utilization of contractors - for instance, in open cast mines, it has outsourced the actual coal extraction (second layer) while retaining the overburden removal function (first layer) for its in-house employees. CIL has chosen this strategy to achieve targeted production levels within the shortest period of time with limited direct investment. Outsourcing has also instilled a sense of competition between the contractors and CIL employees, thereby spurring increased productivity. Acquisition of new land for the development of two new open cast mines, along with more efficient mining operations, should allow Rajmahal to increase overall production from 10.5 to 24 million metric tons per annum.

¶4. (SBU) Given the strategic importance of coal to national development, land acquisition for coal mining operations is governed by the Coal Bearing Areas (Acquisition and Development) Act, 1957, a more accommodating vehicle for land acquisition than the Land Acquisition Act, 1894, that governs land acquisition for industries. CIL claims to have gone above and beyond the requirements of the Act to ensure harmonious community relations. CIL officials have advocated "participatory development" that "touches the hearts" of the land-losing community. In the process of acquiring land and resettling villagers, CIL says they pay a negotiated fair market compensation for the value of the house and land, provides a relocation allowance, considers individuals for employment and gives land for a house in the new relocated village. In the village Post officers visited, CIL had developed the entire infrastructure of the new village including water, power, roads, drainage, schools, clinic and Hindu and Christian houses of worship.

Opportunities for U.S. Companies

¶5. (U) CIL offers promising business opportunities for American firms in the areas of mining equipment sales, contracting of mining operations and construction and operation of coal washing facilities. Bhattacharyya lauded American mining equipment as "world class" with "competitive terms and pricing" and "best in service operational maintenance". A CIL subsidiary recently concluded approximately USD 382 million in equipment purchases from Bucyrus, Caterpillar and Atlas Copco for purchase and maintenance of shovels and dumper trucks. Contracting opportunities are available for operations of underground mines (traditionally loss making) and establishing coal washing facilities through Build Own maintenance (BOM) contracts. Because of the high ash content of Indian coal, CIL has decided to supply washed non-coking coal to all consumers by 2011-12

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(except those at pithead) requiring the addition of 100 millions tons per year of coal washing capacity over the next four years.

Global Expansion

¶6. (SBU) CIL, along with four other PSUs (Steel Authority of India, Rashtriya Ispat Nigam Limited and National Thermal Power Corporation), has formed a special purpose vehicle entitled International Coal Ventures Limited (ICVL) to acquire overseas mining companies. It is currently examining acquisition targets in the United States, Canada, Australia and Mozambique. Bhattacharyya confided to ConGen that ICVL is in an advanced stage of negotiations to acquire a stake a leading coal producer based on the East Coast.

Comment

¶7. (SBU) Coal will remain India's primary source of power generation and CIL its largest producer. With an exemplary chairman at the helm, who successfully turned around one of the loss-making CIL subsidiaries and is cognizant of the need for advanced technology, the benefits of outsourcing and the opportunities of acquisitions, the company is set to grow as an international player. Land is integral to mining operations and CIL appears to have adopted a sound land acquisition and village rehabilitation policy to successfully navigate the perils of land acquisition in India. The cordial relations between the villagers and CIL leadership evident during the visit did not appear to be staged and was reinforced when one local reporter asked Battacharya during a press conference when his village would be "acquired" and developed by CIL. While the inefficiencies of a state-owned enterprise remain (restrictive personnel policies, political pressure to continue loss-making operations, potential for corruption in the bidding process) in the 36 hours Post Officers spent with the Chairman, he and his staff delivered an impressive performance and sell of the opportunities that await American companies with CIL.

PAYNE